

FOREIGN POLICY BULLETIN

*An interpretation of current international events
by the Research Staff of the Foreign Policy Association*



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Both Russia and West Hesitate On Berlin Showdown

WASHINGTON — The grave dispute between the Soviet Union and the Western powers over the right of the latter to remain in Berlin is in reality a conflict over all of Germany. At Crimea on February 11, 1945, President Roosevelt, Prime Minister Churchill and Premier Stalin agreed to inaugurate "co-ordination, administration and control" of Germany upon the latter's defeat, but the prospect of joint action has given way to an intense rivalry for individual paramountcy in the control of German affairs. The United States assumed that its authority would decline everywhere in Germany if it gave in to the Soviet demand to abandon the American occupation zone in Berlin. The Soviet Union stands to gain in power and prestige if it can force America, Britain and France either to withdraw from Berlin or to take part in a general German settlement satisfactory to Moscow. The extreme sense of apprehension and rivalry with which America and Russia regard one another accounts for the refusal of each to modify its position.

Legal Rights in Berlin

In separate notes to the Soviet government, each of the three Western powers asserted their intention to remain in Berlin and demanded that Russia lift the blockade against the movement of goods from the Western zones of occupation of Germany to the Western zones of occupation in Berlin. Because Berlin lies within the Soviet zone of occupation, the goods must move across Soviet administered territory. The right of the Western powers to be in Berlin dates from June 5, 1945

when the American, British, Soviet and French governments together announced: "The area of 'Greater Berlin' will be occupied by forces of each of the four powers." The Potsdam Agreement of August 2, 1945 confirmed this right of the Western governments to be in Berlin. In a conference in Berlin with Marshal Gregory Zhukov of the Soviet Union on June 29, 1945, American representatives understood that they would have free and unrestricted use of a corridor to move across the Soviet zone to the German capital. But those who drafted the Potsdam Agreement, not foreseeing that joint action in Germany would disintegrate into the pursuit of competitive policy by East and West, made no specific provision for American-Anglo-French access to Berlin. Russia now exploits this oversight, but the United States considers it a mere technicality with no substantial meaning.

The documents of 1945 do not make it clear whether the West was admitted to Berlin merely to administer parts of the city separately or to facilitate the working of the machinery of joint action for the administration of all Germany. Arguing the latter, the Soviet Union contends that the reason for the Westerners to remain in Berlin disappeared as soon as they decided last spring, without consulting Soviet authorities, to combine their zones of occupation into a western German state, to cede some western German territory to the Netherlands, Belgium and Luxembourg, and to establish a government of Germans for the new state. Because Western representatives declined to tell him what the agents of their governments

were discussing at the London Conference, previous to final negotiations for the establishment of a Western German government, Marshal Vassily Sokolovsky, Soviet Commander in Germany, announced on March 20 that the West was destroying the *quadrupartite* machinery and walked out of the meeting of the Allied Control Council in Berlin. The joint statement of June 5, 1945 had created the Council "to rule agreed decisions on the chief questions affecting Germany as a whole." The statement also created a governing authority (Kommandatura) of the four powers to direct together the administration of Berlin. The Russians withdrew from that body on July 1.

Power Weaknesses of the Contenders

The United States has brushed aside the Soviet claim that the West has violated the *quadrupartite* conception. The State Department told the Soviet Union in a diplomatic note on March 26 that the London conference on Western Germany "in no way precluded . . . alternate four power agreement." The note of July 6 said, "The United States government categorically asserts that it is in occupation of its sector in Berlin with free access thereto as a matter of established right deriving from the defeat and surrender of Germany, and confirmed by the formal agreement among the principal allies." The Truman administration justifies its program for supplies to Berlin by airplane since the Russians refused to permit the entrance of trucks, trains and barges carrying goods from the west. Yet neither

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the Soviet Union nor the United States have come to any precise conclusion about the best method for settling the conflict. General Lucius Daniel Clay, United States Military Governor in Germany, said of Russia on June 24: "They can't drive us out by any action short of war as far as we are concerned." But the diplomatic actions of the United States have been less bellicose than those words suggest, and the Soviets have applied their pressure on the Westerners in Berlin unevenly, as though they hesitated to provoke a real crisis.

The United States might make more preemptory demands upon Russia if it were in a position to assure the Western European powers friendly to America that we could help them directly and at once should the Berlin affair lead to war. Reflecting this interest in American military support, representatives of Britain, France and Belgium and the Netherlands met

with Under-Secretary of State Lovett on July 6 to explore possibilities of America's giving guarantees to those powers who are united by the Brussels Pact. The State Department drew its authority for this discussion from the Vandenberg resolution of June 11 which encourages the United States to reach regional understandings with members of the United Nations. But the administration will need explicit authority from Congress to send arms to Western European governments before any regional understanding can amount to much more than a hope.

The Soviet Union likewise suffers from weaknesses in its system of alliances, which restrain it from pushing the Berlin issue to a showdown. Until three weeks ago it was commonly assumed that the Soviet Union and her Eastern neighbors, Poland, Czechoslovakia, Rumania, Hungary, Bulgaria, Albania and Yugoslavia were united in purpose, but on June 28 the Communist Information Bureau denounced the com-

munist leaders of Yugoslavia in a Manifesto published in the Prague newspaper, *Rude Pravo*. Since the communist leaders include Marshal Tito, the President of the Yugoslavia Federated Peoples Republic, the Manifesto amounted to an attack on the regime by the Soviet Union and the other Eastern governments. While superficially Moscow has kept this controversy on the level of an intra-communist quarrel without permitting it formally to become a diplomatic dispute between governments, Russia cannot give its undivided attention to the West so long as the rupture with Belgrade goes on. By the Prague Manifesto the Cominform invited the Communists of Yugoslavia to turn Tito out of the Party leadership when they meet in their Party Congress on July 21. The future course of Russia with respect both to Yugoslavia and Berlin depends to some extent on the decisions reached at that Congress.

BLAIR BOLLES

E. C. A. Refuses Use Of Funds For Argentine Relief

Honors in the first round of bargaining over Argentina's role as supplier in the European Recovery Program belong to the United States. In a series of conversations which took place in Washington and Buenos Aires in June, the Economic Cooperation Administration fully communicated its refusal to become a "relief agency" either for the Argentine government, or for American business interests in Argentina. More is at stake in these negotiations than the price at which the products of the fertile Argentine pampa will move to Europe. With perhaps 7 million tons of cereals to contribute to the recovery of Europe in the current year, and enormous quantities of fats, oils, meat and hides, Argentina is also involved in an ambitious program of "economic liberation" from the great industrial powers. It is one of the small ironies of history that the success of this program ultimately requires the co-operation of the great powers. For at the present juncture, the financing of the Five Year Plan depends on the acquisition of dollars from Argentina's exports of raw materials and the channeling of these dollars into imports of industrial equipment through the agency of a state trading mechanism. Both American and European interests have suffered as a result of Argentine economic nationalism. And for Washington and Buenos Aires alike, the problem has taken

on the aspect of an ideological conflict.

Wheat at What Price?

That Argentina has moved from a sellers' to a buyers' market in the past months has immeasurably strengthened ECA's position in the negotiations which will determine the extent of United States financing of the ERP countries' trade deficit with Argentina. That country is a world leader in the export of agricultural commodities; in prewar years it accounted for 22 per cent of world wheat shipments, 61 per cent of corn, 53 per cent of chilled beef, and 78 per cent of linseed. In late 1946 the Perón administration created a state trading entity, known as the Argentine Institute for the Promotion of Trade (IAPI), to purchase grains directly from the producer and to handle all sales abroad. Under this arrangement, in 1947, the grower received \$1.21 to \$1.37 a bushel for his product, while in the same period IAPI's export price went as high as \$4.86. The resulting extravagant margin of profit has been used to finance imports of machinery and equipment—to what extent, however, it is impossible to say, since IAPI's balance-sheets have never been made public. Since the end of the war, Argentina's export trade has tripled in value but has not recovered its prewar volume. The reduction in the volume of exports undoubtedly has its immediate ex-

planation in the low prices paid producers. Acreages planted to wheat declined 17 per cent in 1947 below areas sown in 1946, and were 27 per cent below those sown in the years 1935-1937. Nevertheless, the government has justified its price policy on the ground that Argentina, in its turn, must pay exorbitant prices for the machinery and equipment it imports from the United States. On June 12 Sr. Miguel Miranda, head of the National Economic Council, stated that Argentina and the United States had reached "complete accord" on an interpretation of the wheat market price, but it has since become apparent that whereas the United States considers that the free market price of wheat is the Chicago price plus the cost of transportation to Gulf ports, the Argentine government contends that it is the offer entered by the highest bidder. ECA is relying upon the prospect of excellent wheat yields in Canada and the United States and on production increases elsewhere to force down the Buenos Aires price.

If earlier statements by Sr. Miranda are believed, Argentina expects to sell \$1.5 billion worth of fats, oils, grains and hides to Europe under the present ECA appropriation. Until the price problem can be ironed out it is premature to predict how substantial ECA spending in Argentina will be; some estimates have placed it at

\$1 billion. According to the most satisfactory estimates available, the annual deficit of the Marshall Plan countries on their trading account with Argentina will amount to at least \$500 million, even if that country accepts the "competitive" price urged by ECA. If, however, Argentina refuses to align its prices with world market prices, the additional drain on ERP appropriations would be in the neighborhood of \$250 million each year. Full United States financing of this deficit would be politically inexpedient and economically unsound. Over the four-year period, assuming the present disparity in prices were maintained, the Argentine government would receive a subsidy of over \$1 billion above the price paid to American farmers for the same quantity of produce. The additional dollar purchasing power which would be afforded Argentina under such an arrangement would have serious inflationary effects not only on its domestic economy but in the United States. The ECA representative, E. Struve Hensel, who went to Buenos Aires in June, made it clear that, in the present buyers' market, Argentina must not only be prepared to "undersell" other producers but also to offer substantial credits to European countries. And to strengthen the force of this advice, he announced at the outset of his visit that no allocations for Argentine purchases had been made in the agency's estimates for the second half of 1948.

Argentina's Dollar Problem

In the current negotiations the United States has another asset at least as useful as the improved wheat supply—Argentina's critical foreign exchange situation. Since 1946, "the rapidity and extent of the decrease in the foreign assets of the Argentine Republic are perhaps without precedent in the international financial history of the Latin American countries," the National Foreign Trade Council declared on April 30. The United States Chamber of Commerce in Buenos Aires reported on June 11 that Argentina had suffered an adverse balance of approximately \$500 million in its trade with the United States. The virtual depletion of its dollar exchange has required resort to

drastic import and exchange restrictions since mid-1947, culminating on May 17 in the complete suspension of exchange permits for imports originating in hard-currency countries. American traders and investors in Argentina, unable to obtain exchange permits or to remit earnings on their capital, have been forced to the point of closing down their Buenos Aires operations. The new measures also penalized the Argentine consumer. By the second quarter of 1948 virtually the only commodities for which dollars were available were fuel products, and, in this Argentine winter, the government has imposed severe new taxes on gasoline, kerosene and crude oil in an effort to curtail consumption.

The hard-bargaining Perón administration may have calculated that the pressure brought to bear on Washington by American business interests to bail them out of their present difficulties in Buenos Aires would supply ECA dollars to Argentina at Argentina's asking price. It has been estimated that Argentina would require \$400 million immediately to settle outstanding accounts with the United States, reopen imports, and reinstitute remittances on foreign capital invested in the country. But the equally hard-bargaining Economic Co-operation Administration has stipulated that its terms also include more favorable treatment of foreign investment capital. Certain percentages of any ECA dollars accumulated to Argentina's credit would be budgeted for settlement of old debts with the United States and for capital remittances to this country.

Nationalists' Dilemma

Two alternatives are open to the Argentine government in this difficult period. One would be to delay action on ECA's terms on the gamble that Washington's estimates of world wheat availabilities will eventually prove to have been too optimistic. If coal and oil needs could be filled by eastern European countries, and if western European countries would release some of their own supply of dollars, so that Argentina could meet its minimum requirements from the United States, this course might be successful. Its cost would be high in terms of increased privation to

the Argentine consumer and a setback to the Five Year Plan. The alternative is to bow to Washington's requirements, and this would mean, in turn, a considerable overhauling of the economic program of the regime. The second course is actually fraught with more political danger to the regime than the first. On July 1 President Perón promised Argentine workers that he would not surrender the "economic war" which capitalist countries are carrying to Argentina. But recent measures indicate that the administration, aware perhaps of the dilemma into which it has been thrust, is attempting to straddle both courses. The Central Bank on June 22 published a new and more liberal set of exchange regulations and followed this up the next day with the announcement of a new free market buying rate for the peso. The first measure is designed to open the way to larger imports from soft-currency or non-dollar areas, and will give exporters from these areas a competitive advantage over exporters from hard-currency countries. On the other hand, more liberal provisions for capital remittances, and the higher buying rate on the peso—which amounts, in effect, to a 20 per cent cut in the price of Argentine exports—may augur improvement in commercial relations with the United States.

OLIVE HOLMES

The United Nations, by Herbert Vere Evatt. Cambridge, Harvard University Press, 1948. \$2.50

A clear and thought-provoking discussion of the formation, working, and future of the UN, by the distinguished Australian statesman who championed the rights of small nations against the great powers at the San Francisco conference.

I Saw Poland Betrayed, by Arthur Bliss Lane. Indianapolis, Bobbs-Merrill, 1948. \$3.50.

Mr. Lane, American Ambassador to Poland, 1944-47, eloquently denounces Russia and Poland's postwar government for what he regards as their "betrayal" of the Polish people. Nor does he pull punches about the part played by the United States at the Teheran and Yalta conferences. Little is said, however, about prewar developments in Poland and the effect they may have had on the recent situation.

World Communism Today, by Martin Ebon. New York, Whittlesey House, 1948. \$4.50

A German-born journalist who during the war served with the Office of War Information presents an exhaustive and generally balanced picture of the activities of Communist groups all over the world. In his opinion, "Western civilization can answer communism only by positive and constructive action"—not merely by war.

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Citizens and Foreign Policy

News in the Making

III. Community Organization

Any really effective organization for citizens education in world affairs must function as the center of the community's international interests. This implies an established headquarters, even a single room, from which all membership activities stem and to which people can go for information and advice or for the procurement of published material and subscriptions. On a more elaborate scale it should offer both a reference library and adequate facilities for conferences and study group meetings. No international question, no area of the globe, nor any aspect of world organization for peace will fall beyond the purview of its program. It must appeal to all groups and individuals, whether they are specially interested in the United Nations and World Government, the affairs of Latin America, Europe and Asia, or such divergent problems as Soviet relations, world trade, and the Marshall Plan.

Whether the type of center we are speaking of is known as "The Foreign Policy Association," "Council on World Affairs," or by some other title is a matter of choice. The factor of real importance is that the organization shall serve as the focal point of the community's concern in world affairs, where citizens and groups may turn for help and be given a sense of contributing to the solution of world problems. Avoiding pressure group activities, the center must provide a solid corps of trained leadership for assuming the responsibilities of community-wide education.

Communities have today a wealth of potential recruits for such purposes. There is now an entire generation of college graduates many of whom majored in international relations and who have traveled widely abroad for business and pleasure. Most important of all there is the veteran whose foreign experience has taught him the meaning of modern war. While interest in the affairs of nations has begun to lag seriously among many of these people, because of lack of organization and the frustrations of the indifference of neighbors and friends, they will still respond to the idea of a community center which means business. More than that, they are unusually well equipped to assume the responsibilities of leadership in expanding educational programs, given the opportunity of guidance

and training.

A third and most important element in the success of community organization involves the wider public. How can the public consciousness and understanding of the realities of present-day world relations be extended on a community-wide scale? By what means is it possible to achieve a sense of mass responsibility for the solution of the problems of peace which were so easily and thrillingly awakened in the sharing of the burdens of war? It is the characteristic of American towns and cities that they are composed of, nay largely function through, numerous groups of citizens representing professional, cultural, religious, civic and social interests. These include schools, churches, libraries, service clubs, Chambers of Commerce, labor unions, literary and artistic societies and many other occupational groups. None is specifically dedicated to the edification of their members in the affairs of the world, though some do include international problems, on a limited scale, in their membership programs. Yet most of these citizens associations can provide a wide educational field in these respects, given adequate leadership, guidance and service of a community international center.

Herein lies essentially the heart and secret of our program. Members of an international center are likewise members of the other major groups and associations within the community. Through the educational opportunities and functions of the center they can receive the inspiration and mental equipment for assuming leadership in enlarging and enriching the international educational programs of the various other groups to which they belong. Of equal importance they will speak with a common authority from the forum platform, the pulpit, the newspaper column, the radio and the school room. They provide thus the most effective means whereby under a democracy within a community a real impact upon public thinking can be made.

When we speak, therefore, of community organization, two major functions are assumed. The first concerns the activities and programs of participating members and the other the educational services to the community at large. Membership programs and community services will be the subject of the next article.

BROOKS EMENY

British-Eire trade is expected to increase as a result of the agreement signed in London on June 22. The new trade pact will insure more foodstuffs for Britain and increased shipments of coal and agricultural machinery for Eire. Total British exports will be lowered, however, to help correct Eire's adverse trade balance with London.

Output of petroleum in all parts of the world is being increased to meet a demand which greatly exceeds wartime predictions. Important changes are also occurring in the sources of supply for those countries which depend largely on imports. Near East production is steadily increasing, and by 1951 is expected to provide eighty per cent of Europe's oil requirements. The remaining 20 per cent will come from the Western Hemisphere which is currently supplying about 70 per cent of European imports. New investments in the wells and refineries of the Netherlands Indies are such that the needs of the Far East will soon be met locally. In the United States, the domestic demand is being supplied to an increasing extent by imports from the Mediterranean area. To provide more oil, it was announced in London on June 22 that the Iraq Petroleum Company had decided to construct a 30-inch pipeline from Kirkuk to a terminal in the Eastern Mediterranean. This company is jointly controlled by British, American, Dutch and French interests. Already, two other large pipelines are under construction—one the American-owned tube from Saudi Arabia to Lebanon, and the other the British-United States line from Iran and Kuwait to a Mediterranean port not yet selected. Production of petroleum in the Middle East is also likely to increase as a result of a new concession recently obtained by another group of American oil operators. On July 6 it was revealed in London that the American Independent Oil Company had obtained rights to one half of the neutral zone between Kuwait and Saudi Arabia on the Persian Gulf. No wells have been drilled in this area, but it is assumed rich oil deposits are to be found there.

McKay Goes to State Department

Vernon McKay, formerly of the FPA Research Staff, has been appointed to the Department of State as Chief of the African Political Section in the Division of Research for Near East and Africa.